



IN REPLY
REFER TO

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OCT 25 1995

AQOD

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS
COMMANDER, DEFENSE CONTRACT MANAGEMENT
COMMAND INTERNATIONAL**

SUBJECT: Integrated Product Team (IPT) Pricing

The current pricing and negotiation process consists of sequential, redundant activities that cause considerable duplication of effort by DCMC and its customer buying activities and unnecessarily delay contract award. This letter introduces a methodology, termed **IPT Pricing**, designed to expedite contract award and modification execution by replacing the traditional pricing and negotiation process with a concurrent, team approach.

IPT Pricing is characterized by communication between the contracting parties during solicitation and proposal development to resolve issues up-front and facilitate proposal analysis and negotiation. It is generally defined, and differentiated from the traditional approach, by the following elements:

a. The Government leader of the proposal analysis team will normally be the individual responsible for negotiation and drafting the contract or modification.

b. Agreement with the contractor on proposal format, depth and scope of cost or pricing information required, and a negotiation schedule (to include closing or cutoff dates for contractor cost or pricing data submission) prior to proposal development. Also, as appropriate, agreement on technical aspects (SOW, specs, schedule, etc.) prior to proposal preparation or solicitation issuance.

c. Review and discussion of the proposals in sections as completed (e.g., material costs) prior to formal submission of the complete proposal.

d. Preparation of a comprehensive team Prenegotiation Objectives Memorandum rather than multiple independent formal advisory reports such as field pricing reports and technical analyses. The Prenegotiation Objectives Memorandum, developed concurrently with contractor proposal preparation, should suffice as a basis for immediately commencing negotiation, thereby allowing negotiation to begin days, vice the current weeks, after proposal receipt.



The IPT Pricing approach, like any pricing and negotiation method, must be flexible to accommodate the particular contract action at hand; factors such as the degree of competition, contract type, dollar value, cost mix, etc. must be considered. Conversely, IPT Pricing, albeit modified as necessary, should be employed in all cases, e.g., regardless of whether negotiation is delegated to the contract administration office (CAO) or retained by the buying office, the contractor decides to participate, the acquisition is routine or of relatively low dollar value, etc.

We have briefed many of the top Department of Defense acquisition decision-makers, including the Director, Defense Procurement on our intent to adopt this approach as our standard pricing and negotiation methodology. Their response has been extremely (and unanimously) positive and enthusiastic. We will begin a phased implementation with about ten CAOS in February 1996 and plan to have IPT Pricing instituted throughout DCMC by October 1996.

The IPT Pricing concept has its origin in the best practices of, and prior initiatives led by, the Military Services. Therefore, it is likely that many CAOS have participated in efforts akin to IPT Pricing; these offices are invited to share their experiences. Briefing charts are attached and more information on IPT Pricing will follow in the near future. If interested in being considered for inclusion in the initial group of CAOs, please contact Mr. David Ricci at (703) 767-3376.

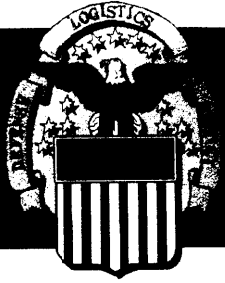


ROBERT W. DREWES

Major General, USAF

Commander

Attachment



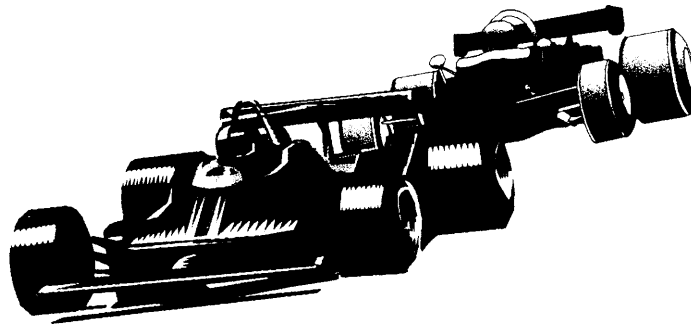
IPT Pricing

DCMC's New Price/Cost Analysis Method

Better

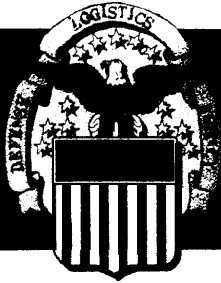


Faster



Cheaper





IPT Pricing

Supports SECDEF's
10 May 95 policy
memorandum on IPTs

Natural followon and
complement to "Early CAS/IPT
Participation"

Supports DCAA's
IPT Approach

- Continuous communication with contractor
during proposal development

- Address concerns "real time"

- Concurrent evaluation, analysis, and fact
finding during proposal development

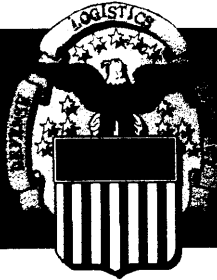
Speeds up preparation for
negotiation

- Teaming of DCMC, DCAA, and buying activity

Synergy!

- Fast negotiations!

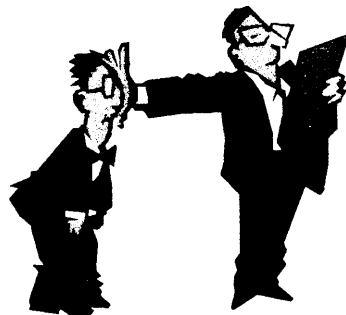
Issues already resolved!



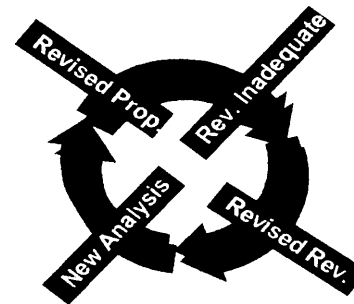
IPT Pricing

Not this!

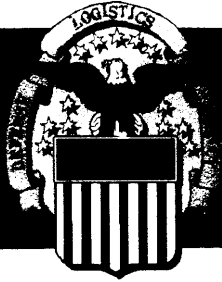
Sequential, at every step



***. . . participants always
at arms length***



***. . . and process always
susceptible to "re-do loop:"***

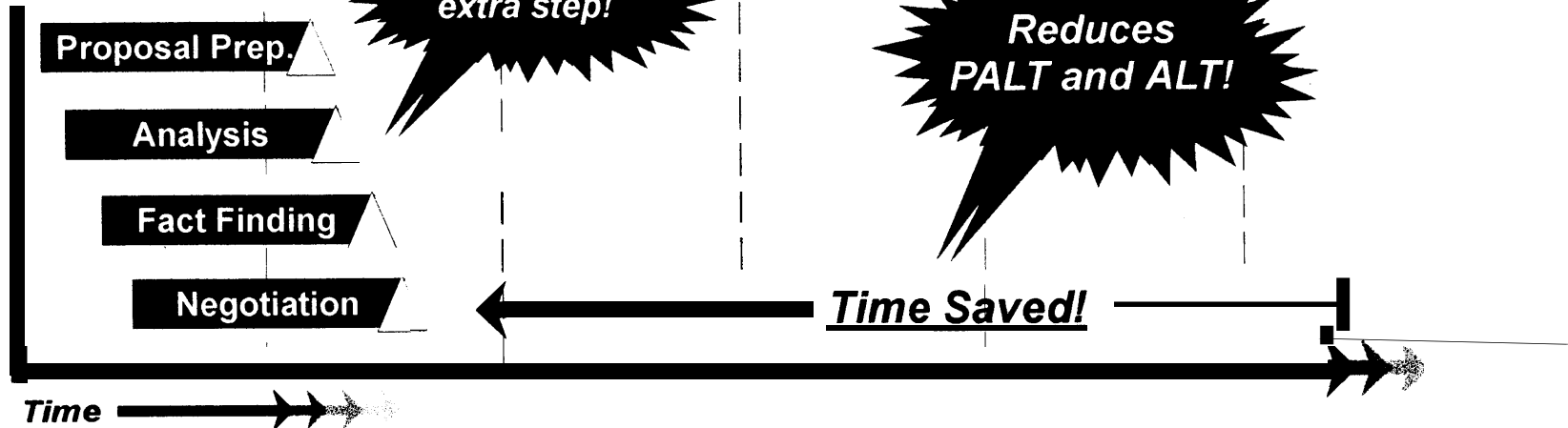


IPT Pricing

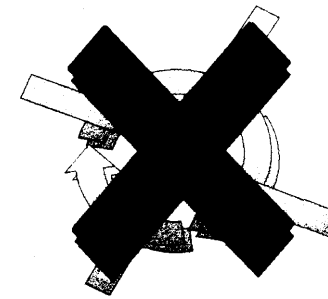
This!

*Follows the
course charted by
Alpha Contracting*

Concurrent . . .



. . . enhanced consultation and teamwork . . .



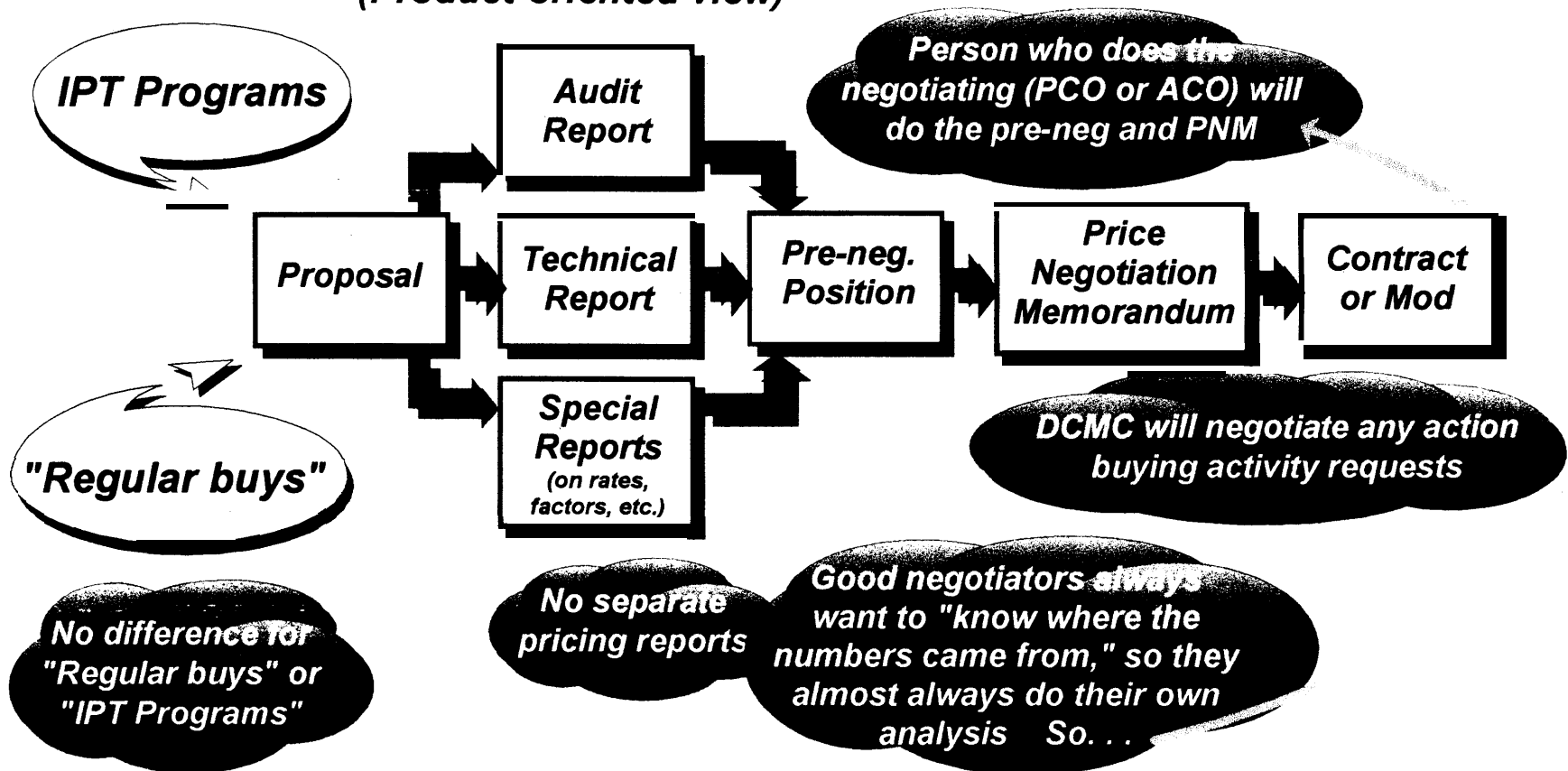
. . . "re-do loops" eliminated!

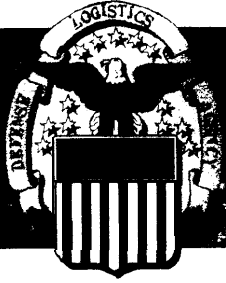


IPT Pricing

Will be Our Standard Method for All Pricing Actions

(Product-oriented view)





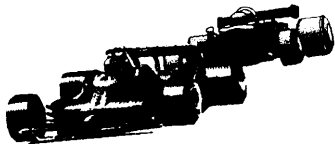
IPT Pricing

Better



Increased communication between buyers and sellers results in greater understanding and fewer mistakes and conflicts

Faster



Concurrency, teaming of Government participants, and extensive communication with contractors leads to rapid resolution of issues

Cheaper



Less time equals fewer labor hours, equals lower costs for both Government and contractors, equals lower contract prices and Government operating expenses